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SUBJECT: CROATIAN ELECTIONS: GOOD TIME TO STAY ON SIDELINES

Classified By: Nicholas Hill, Polecon Counselor, for Reasons 1.5 (B) and (D)

11. (C) Summary: Elections are less than two weeks away and remain too close to call. Both sides have complained that the U.S. favors the other side. In contrast to 2000, when post played a rather prominent role shepherding the cats that made up Croatia's democratic opposition parties into something like a workable coalition, we have remained more publicly neutral this time. If we favor any side it would be the ruling coalition under Prime Minister Racan's Social Democratic Party -- but, unlike in 2000, what the current election season is putting on display is a range of parties with many shades of gray. HDZ has come a long way since Tudjman times, but it is not fully reformed. SDP has moved Croatia in the right direction -- toward regional reconciliation and Euro-Atlantic institutions -- but it has been a big disappointment when juxtaposed against expectations at the beginning of its mandate. End summary.

12. (C) There is a range of issues we will be looking to the next government to manage -- cooperation with the War Crimes Tribunal, facilitation of refugee returns, and regional reconciliation are key issues that Croatia faces as part of overcoming its wartime legacy. Euro-Atlantic integration and implementing the wrenching reforms required of any transition country will also continue to figure prominently. HDZ President Ivo Sanader argues to us that a government he heads will be much more friendly to the U.S. and sensitive to our priorities in the bilateral relationship. His likely foreign minister, Miomir Zuzul, Croatia's Ambassador in Washington during the Tudjman era, is even more aggressive in making the case. We like some of the rhetoric coming out of HDZ these days compared to the bad old days under Tudjman, but remain skeptical about follow through.

Overcoming Wartime Legacy

13. (C) Sanader knows what priority we attach to Croatia's cooperating fully with the War Crimes Tribunal and in private meetings assures us he has no intention to slack off compared to the current coalition. Quite the contrary, he argues that an HDZ-led government will be "much more efficient" in working with The Hague. This is a comparison that does not offer much reassurance given the current government's rather indifferent record of cooperation. Moreover, Sanader's party has several key people who have rather cozy ties to potential war criminals. Indeed, near the top of its list in Osijek is Branimir Glavas, an HDZ leader in the early nineties who played a considerable role in stirring up ethnic tensions -- and who many believe belongs in the The Hague himself. Among his potential coalition partners, Sanader will have Drazen Budisa, leader of the Croatian Liberal Party (HSLs). He has demanded that Croatia must change its terms of Cooperation with ICTY. A former coalition partner of Racan's, he has demonstrated already that his threats can be more than bluster.

14. (C) Another priority for the U.S. in its relations with Croatia is seeing progress on refugee returns. The current government has taken criticism for not doing enough to facilitate the return of ethnic Serbs expelled in the mid-nineties. OSCE and UNHCR have led the way in pointing out the Racan government's deficiencies on this front and pointed to the lack of follow through. Statements of intent are made in Zagreb about what will be done to facilitate returns and then little happens at the local level. Sanader has told us he understands the importance of facilitating returns -- but we have seen precious little in terms of an HDZ strategy for pushing this issue forward. (Although at Sanader's instruction when trying to set up a lunch meeting with the Ambassador, HDZ did forward to us a copy of a speech by Glavas underscoring the importance of inter-ethnic reconciliation. We cannot confirm if the speech was actually delivered.)

15. (C) Another priority for the U.S. is seeing Croatia improve its relations with its neighbors. On this issue on balance the current government has done well -- and is less vulnerable to an argument that HDZ could do better to advance our agenda. Indeed, one of the first things the Racan government did on coming to office was to stop undermining Dayton by meddling unconstructively in BiH's Bosnian-Croat

community. Many outstanding issues remain, including ratifying the Ploce Port Agreement, but most observers agree that relations are much more normal than during Tudjman times. Similarly, relations with Belgrade are much better. The two sides are moving constructively on a number of fronts, including by signing a landmark temporary agreement over the Prevlaka peninsula, which enabled the UN to shut down its observer mission there at the end of 2002. Given all the bad blood, it is implausible that HDZ could step in and push regional reconciliation more effectively.

Euro-Atlantic Integration

16. (C) We support Croatia's integration into NATO and the EU, and have applauded the Racan government for pushing this process forward -- although it is not clear that continued progress hinges on the results of next week's elections. Certainly much has been done in the past four years. The Prime Minister, particularly in recent months, has made EU integration the centerpiece of its mandate. Quite constructively, the government has made clear that difficult decisions on ICTY cooperation and a range of reform issues will have to be made as part of this effort to move toward EU membership. The government signed a Stability and Association Agreement with the European Commission in January 2002 and has been working with the EC on membership requirements ever since.

17. (C) The problem is that the difficult decisions that Racan has been willing to talk about are not getting resolved and Croatia -- read, this government -- is only now starting to pay the price. The SAA is bogged down. If the British and Dutch do not ratify it by year-end -- their chief gripe is over the government's inability to track down Ante Gotovina, at present Croatia's only known ICTY indictee -- the EU's ten new members will enter in May and be asked to ratify it too. As a result of the delays, the notion that, to get into Europe, Croatia needs Racan is looking less convincing all the time. And for his part, Sanader and others in leadership positions in HDZ have been making some of the right noises about Euro-Atlantic integration. The HDZ leader may be in a position to pull off a Nixon-to-China: it is doubtful that he would let problems concerning refugee returns or the War Crimes Tribunal derail Croatia's progress on EU integration.

18. (C) Sanader and Zuzul argue that they will work hard to keep EU integration on track and work even harder than the current government on NATO integration. The jury is out for a while, but their case has some resonance. Racan has benefited from the goodwill shown him ever since he came to office. Sanader will benefit from no such goodwill, and bromides will not pass for policy measures. He will have to bend over backward to answer the concerns about whatever coalition he forges, and deliver on substance not rhetoric. If he comes to power, whatever he does, there are plenty of skeptics in EU capitals and Croatia will inevitably lose time on moving toward the EU and NATO -- Sanader's task will be to move quickly to put the doubters at ease. We are not convinced yet that he will succeed, particularly given some of the problematic, retrograde people associated with any HDZ-led coalition. But it would also be unfair to suggest that an HDZ victory would automatically poison Croatia's EU and NATO chances -- particularly if substance replaces style.

Conclusion

19. (C) In part because the choices in Croatia's political orbit are so uninspiring, we are more ambivalent and have played a less active role in these elections compared to four years ago. The current government has the right instincts about what needs to be done, but not the stomach to carry through on the implementation. It has also been lamentably unresponsive on some of our own priorities -- in particular, its policy concerning Iraq during the lead up to war was confusing and unhelpful; it pandered needlessly to its old World War II allies Germany and France. At the same time, after only four years out of power, HDZ has baggage and its return to power will leave many uncomfortable about the future. We suspect that an HDZ-led coalition would look less like Tudjman revisited and more like Viktor Orban's coalition in Hungary until last year -- nationalist and somewhat roguish, with a lot of kleptocrats taking prominent positions, but not necessarily a malignant force for instability. All in all, this is a good time to stay on the sidelines.

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